American Iron and Steel Institute

Statement of Andrew G. Sharkey, III
President and Chief Executive Officer
American Iron and Steel Institute (AISI)

At
The United States International Trade Commission (ITC)
Section 332 Hearing

On
"Competitive Conditions in the Steel and Steel-Consuming Industries
During the First Fifteen Months of
The Administration's 201 Steel Safeguard Program"

June 20, 2003

Statement of Andrew G. Sharkey, III
President and CEO
American Iron and Steel Institute
Before
The International Trade Commission
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Good morning, Madam Chairwoman and other members of the Commission. I appreciate the opportunity to testify about the impact of the President's steel tariffs on U.S. consumers and steel-consuming industries. My statement is on behalf of the U.S. member companies of the American Iron and Steel Institute (AISI), who together account for approximately two-thirds of the raw steel produced annually in the United States.

Over the course of these two days of hearings, you will hear from other witnesses about how: (1) the President's three-year, three-part Steel Program is working, and is not causing harm to U.S. consumers; (2) the 201 tariffs are having positive impacts, as intended, on U.S. steel producers and our suppliers; and (3) the 201 critics are distorting the truth about the tariffs and, in the process, diverting attention from the real long-term problems facing U.S. manufacturing.

Therefore, what I would like to do today is to provide a little different perspective and talk to you about an issue that has received much less attention. I want to take this opportunity to discuss some of the vital programs that are part of our steel industry's long-term investment that is advancing the competitive position of our customers in the U.S. and global marketplace.

I am also providing you with a copy of AISI's Market Development 2003 Progress Report, "An Investment in Steel's Future," which highlights this progress. These programs, which were in serious jeopardy in the period leading up to the imposition of the 201 tariffs, are fundamental to a strong, globally competitive consumer base. They will be imperiled again if the tariffs are lifted prematurely.

Market Development

Long before the President initiated the 201 steel tariffs in the national interest, our members established, through AISI, a leadership role in the development of programs to expand the markets for steel. Over the years, we became the acknowledged world leader in the development of innovative steel-customer partnership programs. At AISI, we long ago decided to focus most of our resources in this vital area because, if our members are to compete and win the global marketplace of the 21st century, it is essential that they produce steel products better, faster and at an even more cost-competitive price. The "growth" strategy that we have pursued has emphasized:

- expanding traditional markets;
- establishing new market growth; and
- creating innovative market applications.

Prior to the crisis conditions in our industry, AISI member companies had committed to a business plan requiring a $115 million investment over a five-year period to advance the competitive position of our customers. The average steel producer today has an investment of between $1 and $9 billion in capital equipment designed exclusively to make a range of quality steel products for its customers. Collectively over the past two decades, American steel producers have invested more than $60 billion into highly efficient facilities that meet aggressive standards for energy, environment and product quality. Downstream steel processors and converters have made proportionate investments as well.

A strong domestic steel industry is essential if we are to ensure that our collective investment in steel's future will return the value on invested dollars to our customers and, ultimately, the consumer. Unfortunately, the very factors that led to the imposition of the Section 201 tariffs put these ambitious and beneficial pro-customer programs -- and the industry's significant investment in them -- in extreme jeopardy.

The steel import crisis reduced substantially the funding that was available for these programs -- from $24 million per year to less than $10 million, resulting in the elimination of some of these investments. This occurred because many of the long-term investors in these programs, companies such as LTV, Bethlehem and National, were in bankruptcy or a severely weakened financial condition -- unable to support our critical steel-customer partnerships and vital market development efforts.

Now, however, thanks to the implementation of the President's steel tariffs, which served to stabilize the domestic steel market, our industry has been able to maintain its core market development programs, albeit at a reduced level.

As a result, we are maintaining steel's competitive position in over 60 million tons of traditional markets, and have identified nearly 15 million tons in new, potential growth markets. These ongoing investments that are being made jointly by U.S. and Canadian mills demonstrate -- with real results -- that U.S. companies can come together to implement effective programs that directly support their customers.

There should be no doubt that, if the United States does not maintain the 201 tariffs for their intended, full three-year duration, our industry's innovative market development efforts and our substantial pro-customer investments in these areas will be in serious jeopardy again.

These programs, which are also of mutual benefit to the Congress' policy objectives, include: vehicle fuel economy and weight reduction, affordable housing, efficient infrastructure, safe and efficient building design, child nutrition and recycling of materials. We are developing steel solutions to all of these challenges. Some examples of current programs that would be at risk if the President's steel tariffs were to end prematurely include the following:

- Toward vehicle fuel economy -- We are defining steel's potential to solve affordable weight goals by developing a totally new way to design automobiles using high strength steels. Through AISI, North America's steel producers gave birth to an international program in advanced vehicle concepts. The design is called the Ultralight Steel Auto-Body (ULSAB), and this program has optimized steel vehicle design based on leading edge design technologies. Collectively, we have invested over $22 million to establish the criteria for the next generation of steel-based vehicles. The result is a price-competitive family automobile concept with a five-star crash rating, which is lighter in weight and achieves better fuel economy -- up to 52 miles per gallon. This vehicle is 36 percent lighter than the best car on the road today; it meets advanced crash energy requirements; it achieves key environment and fuel efficiency objectives; and it is affordable. Auto manufacturers today are already utilizing these advanced vehicle concepts and high strength steels.

- Toward affordable housing -- We are growing the market for residential steel framing, which has increased by 300 percent in the last four years. Our industry has already made a considerable investment to grow this market where traditional materials have dominated. We are currently investing in 13 R&D projects to eliminate technical barriers and accelerate growth in residential framing. This program is also benefiting the commercial framing market, which includes schools and other institutional buildings, hospitality, small office buildings and retail establishments. In both cases, compared to traditional materials, steel's attributes (being light weight, durable, fire resistant and able to withstand natural disasters) make it a cost-competitive material of choice in these non-traditional markets.

- Toward efficient infrastructure -- We are investing and partnering to develop high-performance steel for bridges. Prior to 1995, we were losing market share. Through our market development efforts, this trend has been reversed. Since 1995, steel bridge shipments have doubled to over 650,000 tons. With more than 158,000 bridges in need of replacement in the United States, these trends are significant. For highways, 31,000 new-steel tons were added to the steel-reinforced concrete pavement market just in 2002. We are also promoting a major new growth market for steel utility poles. Since we got into this market five years ago, market growth has been 300 percent. This represents approximately 400,000 steel poles. Over this period, some six hundred domestic utility companies -- our customers -- have invested in steel poles.

- Toward safe and efficient building design -- We are working in partnership with roofing manufacturers and, as a result, consumer demand for steel roofing has been steadily increasing. Our share of this market has grown in recent years from 3 percent to 6 percent -- or by almost 1 million tons of steel. In recognition of our research on cool metal roofing, AISI received the Sustainable Policy Initiatives Award in 2002. In addition, for all types of steel building construction, our industry has developed cost-competitive codes and standards, which allow for faster introduction of new technologies and open up the marketplace for innovative product applications.

- Toward affordable nutrition -- We have joined with leading research dieticians and food nutritionist to define more precisely the nutritional value of canned food. In joint partnership with the food processing industry, we have helped today's consumer obtain the facts about affordable nutrition.

- Toward material recycling -- We are maintaining steel as not only the most recycled material -- at an industry-wide rate of almost 69 percent (66 million tons) -- but also as the material that always contains recycled content. Thus, it leaves a lighter "environmental footprint" than most other materials. Through the Steel Recycling Institute, we have taught local communities how to gather cans and appliances and return them to the stream of commerce. At the same time, steel's inherent "green attributes" continue to place it in the forefront of Federal and State procurement programs that utilize products with recycled content, and the same applies to energy efficiency design and building programs, whether these programs are government or non-government in nature.

This is but a sampling of our pro-customer, pro-consumer investments and the success that is being achieved by them in steel market development today. The President's steel tariffs have enabled America's steel companies to continue these investments, to the long-term benefit of U.S. steel-using industries and U.S. consumers.

Manufacturing and Technology

In addition to and closely tied to our market development efforts, the steel industry's investments in manufacturing and technology have also advanced our goals of efficiency and competitiveness. As with market development:

- these specialized research and development projects, utilizing shared funding from U.S. and other NAFTA steel companies, existed long before the start of the 201 tariff program;
- our joint R&D projects to improve steel products and processes have been able to continue in large part because of the President's tariffs; and
- if the 201 remedy were to end prematurely, these critical projects would also be in danger of being reduced or of stopping altogether.

Our current manufacturing and technology work includes 36 research projects, which involve 58 steel companies and suppliers as well as 23 research organizations.

Directly related to our market development efforts, we are continuing to invest in a wide range of new steel products. They include the high performance steel plate for bridges using Navy plate technology and the advanced high strength steels (AHSS) required for the next generation of automobile.

Taking automotive as but one example, the steel industry research in advanced high strength steels lies at the core of the lightweight automobile design that I cited earlier. The properties of AHSS have led to dramatic improvements in design and to new automotive manufacturing techniques such as hydro formed tubing and laser-welded blanks, which are resulting in the safer and more affordable cars on the road today.

Through advances in steel manufacturing technology, we are providing our automotive customers with a variety of new products. Over 50 percent of the steels used in today's world-class cars were not even available only a few years ago. In addition to AHSS, the new products include dual phase steels and bakehardenable steels. The next model year of cars and light trucks is making extensive use of these new products and technologies, and they are improving the competitive position of our OEMs, as well as tier 1 and tier 2 parts and component suppliers globally. They are enabling our North American automotive customers to continue to produce world-class, steel-based vehicles. In addition, for every one million ULSAB-AVC vehicles that enter into service (and 16 million new vehicles are sold each year), there will be a savings of over 170 million gallons of gas per year and two million tons of CO_2 emissions.

By partnering with Ford, DaimlerChrysler and General Motors on technical expertise -- and through the use of these high quality steel products and the corresponding improvements in vehicle manufacturing techniques -- the steel industry is helping to save the domestic auto industry an estimated $1 billion annually in production costs.

These types of investments (in the tens of millions of dollars) -- which are benefiting both our customers and the consumer, improving the environment and reducing our dependence on foreign oil -- could not have continued without the "breathing room" afforded by the President's steel tariffs.

This is but one example of how we have collaborated to make the U.S. market for steel one of the strongest in the world. In 2003, a competitive U.S. steel industry remains absolutely vital to domestic auto manufacturers and their parts suppliers. It is in part because of the aggressive collective investment that our steel industry has made in this market. Since 1990, we have invested over $78 million in this market segment alone to improve the competitiveness of our automotive customers.

This shows again that our industry remains firmly committed to investing in continuous improvement and to investing in its customers. The 201 remedy is enabling the U.S. steel industry to continue to reduce costs, increase efficiency and improve both steel processes and steel products. Putting these vital pro-customer investments at risk is not in the best long-term interest of America's steel-using industries.

Conclusion

In conclusion, these types of innovative programs -- financed collectively by America's steel industry -- are examples of the significant investments that the domestic steel industry has made, and must continue to make, as we strive to improve continuously our ways of doing business. These market development and manufacturing and technology programs provide major benefits to our U.S. customers, who in turn require a viable and competitive domestic steel supplier base.

A strong and competitive domestic steel industry is a prerequisite to a strong and competitive domestic manufacturing base. This includes our U.S. metalworking, construction and automotive industries, among others. Many of our customers understand the importance of the steel 201 remedy and the positive long-term impacts that it will provide to U.S. steel-consuming industries. This is one reason why there are so many important U.S. steel-using companies that are <u>not</u> represented at this Section 332 hearing.

Maintaining the President's steel tariffs for the intended, full three-year duration will enable America's steel industry to continue to expand its efforts to become more efficient and competitive so that we can better serve our customers in the future.

American
Iron and Steel
Institute

News Release

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AISI CHIEF EXECUTIVE TESTIFIES ABOUT 201 REMEDY'S POSITIVE IMPACT ON STEEL'S CUSTOMER-FOCUSED PROGRAMS AT ITC SECTION 332 HEARING

WASHINGTON, D.C. -- "There should be no doubt that, if the United States does not maintain the 201 tariffs for their intended full three-year duration, our innovative market development programs and our substantial pro-customer investments in these areas will be in serious jeopardy," American Iron and Steel Institute (AISI) President and CEO Andrew G. Sharkey stated in his written testimony submitted today at the U.S. International Trade Commission (ITC) Section 332 hearing on behalf of the U.S. member companies of AISI.

As an example of what is at stake, Sharkey noted that by partnering with Ford, DaimlerChrysler and General Motors on technical expertise, the steel industry is helping the domestic auto industry save an estimated $1 billion annually in production costs. "Long before the President initiated the 201 steel tariffs in the national interest, our members established, through AISI, a leadership role in the development of programs to expand the markets for steel. Over the years, we became the acknowledged world leader in the development of innovative steel-customer partnership programs, " Sharkey said. These programs, which were in serious jeopardy in the period leading up to the imposition of the 201 tariffs, are "fundamental to a strong, globally competitive consumer base," he said.

"Prior to the crisis conditions in our industry, AISI member companies had committed to a business plan requiring a $115 million investment over a five-year period to advance the competitive position of our customers," Sharkey said. The steel import crisis reduced

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substantially the funding that was available for these programs—from $24 million per year to less than $10 million, resulting in the elimination of some of these investments.

With the implementation of the President's steel tariffs, which stabilized the domestic steel market, the steel industry has been able to preserve its core market development programs: maintaining steel's competitive position in over 60 million tons of traditional markets and identifying 15 million tons of new, potential growth markets. If the 201 tariffs were to end early, examples of current programs that would be at risk include:

- **Toward vehicle fuel economy**: the American steel industry is defining steel's potential to solve affordable weight goals by developing a totally new way to design automobiles using high strength steels. This design, the UltraLight Steel Auto-Body, achieves a 36 percent weight savings compared to the best car on the road today; it meets advanced crash energy requirements; it achieves key environment and fuel efficiency objectives; and it is affordable. Auto manufacturers today are already utilizing these advanced vehicle concepts and high strength steels. The next model year of cars and light trucks is making extensive use of these new products and technologies, and they are improving the competitive position of domestic OEMs, as well as tier 1 and tier 2 parts and component suppliers globally.

- **Toward affordable housing:** The American steel industry is growing the market for residential steel framing, which has increased by 300 percent in the last four years.

- **Toward efficient infrastructure:** The American steel industry is investing and partnering to develop high performance steel for bridges, a market in which we were losing market share that has seen this trend reversed. For highways, 31,000 new-steel tons were added to the steel-reinforced concrete pavement market; and

- **Toward material recycling:** The American steel industry is maintaining steel as not only the most recycled material—at an industry-wide rate of almost 69 percent (66 million tons)—but also as the material that always contains recycled content, and thus leaves a lighter "environmental footprint" than most other materials.

Along with market development, the American steel industry's investments in manufacturing and technology have also advanced its goals of efficiency and competitiveness to the long-term benefit of customers. The current work in this area includes 36 research projects, which involve 58 steel companies and suppliers as well as 23 research organizations. In highlighting the average steel producer's investment of between $1 and $9 billion in capital equipment designed exclusively to make a range of quality steel products for its customers, Sharkey pointed out that

-MORE-collectively, over the past two decades, American steel producers have invested over $60 billion into highly efficient facilities that meet aggressive standards for energy, environment and product quality. "Many of our customers understand the importance of the 201 and the positive long-term impacts it will have for U.S. steel-using industries. This is one reason why there are so many important U.S. steel-using companies that are <u>not</u> represented at this Section 332 hearing."

AISI is a non-profit association of North American companies engaged in the iron and steel industry. The Institute serves as the voice of the North American steel industry, speaking out on behalf of its members in the public policy arena and advancing the case for steel in the marketplace as the preferred material of choice. AISI also plays a lead role in the development and application of new steels and steelmaking technology. AISI is comprised of 31 member companies, including integrated and electric furnace steelmakers, and 144 associate and affiliate members who are suppliers to or customers of the steel industry. For more news about steel and its applications, view AISI's website at www.steel.org.

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American Iron and Steel Institute

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Steel Industry and Union Urge President Bush to Stay the Course:

Lifting the 201 or Lessening Relief Would Undermine Progress and Harm America

With consolidation underway in the U.S. steel industry providing an increasingly stable, quality domestic supply for steel consumers, Section 201 relief is working exactly as the President envisioned, according to a broad-based group of steel industry organizations. Prematurely disbanding or lessening the 201 safeguard would be destructive to the program's progress and undermine ongoing restructuring efforts, the group warned.

In reacting to the International Trade Commission Section 332 hearings this week to examine the impact of the 201 safeguard program, the group emphasized that the President's Steel Program is benefiting consumers and suppliers alike by preserving a stable domestic steel industry, one which is essential to American manufacturing and to national security. The tariffs, which are being phased out gradually over a three-year-period, are facilitating the most dramatic industry restructuring and consolidation to occur in decades, reducing capacity and maximizing productivity.

SPECIALTY STEEL INDUSTRY OF NORTH AMERICA

Cutting short the program or lessening relief would cripple restructuring efforts and likely lead the industry right back into crisis, at the cost of further job loss, damage to steel communities and greater dependence on foreign supply. Stainless steel bar, rod and wire producers also strongly support continuation of the import relief program. Although the hoped-for recovery has not yet begun in this segment, the program has prevented a bad situation from becoming even worse.

CPTI

THE COMMITTEE ON PIPE AND TUBE IMPORTS

Domestic steel producers and workers have invested billions of dollars and taken enormous risks in reliance on the President's three-year Steel Program. If these efforts are allowed to succeed, this historic consolidation and restructuring will result in enormous synergies and productivity gains across the entire steel sector. The resulting progress will be a major renewal of America's steel industry, to the benefit of steelworkers, steel communities, steel-users and suppliers to the industry.

The steel organizations urging the President to stay the course include: the American Iron and Steel Institute (AISI), the Steel Manufacturers Association (SMA), the Specialty Steel Industry of North America (SSINA), the Committee on Pipe and Tube Imports (CPTI), and the United Steelworkers of America (USWA).

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